



中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1110)

CONNECTED TRANSACTION:
PROJECT MANAGEMENT SERVICES AGREEMENT

On 4 November 2005, BACL entered into the Project Management Services Agreement with Air China Command Centre for the provision of the Services to BACL in respect of the Project.

The Project Management Services Agreement was negotiated on an arm’s length basis between the parties and their terms are determined on an arm’s length basis. The Directors (including independent non-executive Directors) considered that the Project Management Services Agreement has been entered into on normal commercial terms and are fair and reasonable so far as the Company and its shareholders are concerned.

Air China Command Centre is a division of CNAH. CNAH is the controlling shareholder of the Company. Air China Command Centre is therefore a connected person under Chapter 14A of the Listing Rules. The Project Management Services Agreement is regarded as a connected transaction for the Company under the Listing Rules and is subject to reporting and announcement requirements.

PROJECT MANAGEMENT SERVICES AGREEMENT

Date: 4 November 2005

Parties: BACL, a non-wholly owned subsidiary of the Company, as recipient of the Services
Air China Command Centre, as provider of the Services

Duration: Commencing on the date of the Project Management Services Agreement and shall be terminated when all matters under the Project Management Services Agreement are completed according to BACL and Air China Command Centre.

Services to be Provided

Pursuant to the Project Management Services Agreement, BACL has appointed Air China Command Centre as the project manager in respect to the Project. Air China Command Centre, and the project manger has agreed to provide the Services in respect to the Project during its commencement, construction and post-completion stages, which include, but not limited to, the following:

- 1. the management of the Project including preparing the development schedule and development budget; preparing the financial statements; preparing and submitting plans to the relevant authorities and supervising various professional parties in relation to the development of the Project;
- 2. the day-to-day development and management decisions for the Project;
- 3. controlling the quality of the Project; and
- 4. taking delivery and conducting inspection of the work done under the Project.

Fees

In consideration of the provision of the Services, BACL agrees to pay to Air China Command Centre a management fee which is equivalent to 2.5% of the approved budget of the construction work for the Project, subject to any adjustment that may be arisen from the difference between the budgeted and actual cost of the construction work. No cap on such adjustment has been set out in the Project Management Services Agreement. The management of BACL is of the view that if any adjustment to the fees is necessary, such adjustment should not be substantial.

Prior to obtaining the approval of the budget of the construction work for the Project, the investment amount of RMB310,850,000 (equivalent to approximately HK\$300,000,000) set out in the “Feasibility Study Report regarding the construction work of Ancillary Facilities of Air China in Capital Airport” and determined with reference to the actual construction cost to be incurred for completing the Project shall be used as the base figure for determining the management fee and it is expected that the management fee payable by BACL to Air China Command Centre shall be RMB7,771,250 (equivalent to approximately HK\$7,500,000), subject to any adjustment that may be arisen from the difference between the budgeted and actual cost of the construction work.

The management fee shall be paid in the following manner:

- 1. 30% of the management fee shall be paid immediately after the signing of the Project Management Agreement;
- 2. 20% of the management fee shall be paid after the construction work on the Project is commenced;
- 3. 30% of the management fee shall be paid after the major construction work on the Project is completed; and
- 4. the remaining 20% of the management fee shall be paid after completion of the inspection and delivery of the construction work.

In the event Air China Command Centre is able to (a) reduce the construction cost of the Project (without sacrificing any of the quality, functions and standard of the Project); or (b) achieve certain quality standard or complete the Project ahead of the scheduled time, a bonus in an amount to be agreed between BACL and Air China Command Centre will be awarded. In such way, BACL can ensure that the amount of bonus to be paid under the Project Management Services Agreement will not exceed the threshold which requires shareholders’ approval. In determining such bonus, the management of BACL will evaluate the net benefit that Air China Command Centre may create for BACL as a result of reducing the construction cost and/or completing the Project before scheduled time. If any bonus is paid as a result of a reduction in the construction cost of the Project, the amount of such bonus paid to Air China Command Centre will not exceed the reduction amount.

Duration

The Project Management Services Agreement shall be for a term commencing on the date of the Project Management Services Agreement and shall be terminated when all matters under the Project Management Services Agreement are completed according to BACL and Air China Command Centre. The management of BACL expects that the Project will be completed not later than the end of 2007 but the obligation of Air China Command Centre (including the post-completion monitoring of the Project) may go beyond the end of 2007.

Connection between the parties

Air China Command Centre is a division of CNAH. CNAH is the controlling shareholder of the Company by beneficially holding approximately 68.4% of the existing issued share capital of the Company. Air China Command Centre is therefore a connected person of the Company under Chapter 14A of the Listing Rules. The Project Management Services Agreement entered into between BACL and Air China Command Centre is regarded as a connected transaction for the Company under the Listing Rules and is subject to reporting and announcement requirements.

REASONS FOR ENTERING INTO THE PROJECT MANAGEMENT SERVICES AGREEMENT

Air China Command Centre is responsible for co-ordinating all companies within Air China and its subsidiaries with respect to the construction work relating to the phase 3 expansion in the Capital Airport. Since all functions with respect to the construction work relating to the phase 3 expansion in the Capital Airport are centralised in Air China Command Centre and Air China Command Centre is specialised in and has the expertise in such construction work, the Company is of the view that it may be more cost effective to engage Air China Command Centre to provide the Services.

BACL has not sought quotation from other independent third parties in respect of the Services because:

- (a) Air China Command Centre is the entity solely responsible for providing such services with respect to the Project to members within the CNAH group;

- (b) Air China Command Centre has the expertise and ability to make application and process the work in respect of the construction work of the Project; and
- (c) no independent third party will have the capacity to perform the construction work without the support from CNAH.

The Directors (including the independent non-executive Directors) considered that the Project Management Services Agreement has been entered into on normal commercial terms which are determined on an arm’s length basis and are fair and reasonable so far as the Company and its shareholders are concerned.

BUSINESS OF THE GROUP

The Group is principally engaged in the provision of air transportation services through Dragonair and Air Macau, airline catering services, airport ground handling services and logistics services.

INFORMATION ON CNAH

CNAH is principally engaged in the business of investment holding in airline-related businesses, provision of financial services, hotel operations, construction, media and advertising.

GENERAL

The Project Management Services Agreement is not a continuing connected transaction. Although the services to be provided under the Project Management Services Agreement are expected to extend over a period of time, they are not carried out on a continuing or recurring basis. The provision of such services by Air China Command Centre will cease as soon as all matters under the Project Management Services Agreement are completed.

Since each of the percentage ratios (as defined in the Listing Rules) other than the profits ratio (as defined in the Listing Rules) is less than 2.5%, the transaction contemplated under the Project Management Services Agreement will be subject to the reporting and announcement requirement under Rules 14A.45 to 14A.47 of the Listing Rules.

DEFINITIONS

“Air China”	Air China Limited, a joint stock limited company incorporated under the laws of the PRC with limited liability, whose H shares are listed on the Stock Exchange and the London Stock Exchange, plc.
“Air China Command Centre”	國航北京基地建設指揮部 (Air China Beijing Construction Base Command Centre), a division of CNAH
“Air Macau”	Air Macau Company Limited, a company incorporated in Macau with limited liability and a 51% indirectly owned subsidiary of the Company
“BACL”	Beijing Air Catering Co., Ltd., a company established in the PRC and a non wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Capital Airport”	Beijing Capital International Airport
“CNAH”	China National Aviation Holding Company (中國航空集團公司), a state-owned enterprise incorporated under the laws of the PRC
“Company”	China National Aviation Company Limited, a company incorporated under the laws of Hong Kong with limited liability, whose shares are listed on the Stock Exchange
“Directors”	the directors of the Company
“Dragonair”	Hong Kong Dragon Airlines Limited, an airline operator incorporated in Hong Kong with limited liability and a 43.29% owned associated company of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Project Management Services Agreement”	the project management services agreement dated 4 November 2005 entered into between BACL and Air China Command Centre pursuant to which Air China Command Centre agreed to provide the Services to BACL
“PRC”	The People’s Republic of China
“Project”	phase 3 of the construction work in respect to the expansion of the ancillary facilities in the Capital Airport
“Services”	the services provided by Air China Command Centre to BACL under the Project Management Services Agreement set out in the paragraph headed “Services to be Provided” in this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Reminbi, the lawful currency of the PRC

In this announcement, except as otherwise indicated, RMB has been translated into HK\$ at the rate of HK\$1.00 = RMB1.04 for reference purpose only.

By Order of the Board
Li Man Kit
Company Secretary

Hong Kong, 14 November 2005

As at the date of this announcement, the executive Directors are Messrs. Kong Dong, Chuang Shih Ping, Zhang Xianlin, Tsang Hing Kwong, Thomas, Gu Tiefert and Zhao Xiaohang and the independent non-executive Directors are Messrs. Lok Kung Nam, Hu Hung Lick, Henry, Ho Tsu Kwok, Charles, Li Kwok Heem, John and Chan Ching Har, Eliza.